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A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

FEBRUARY, 1987

SUMMARY

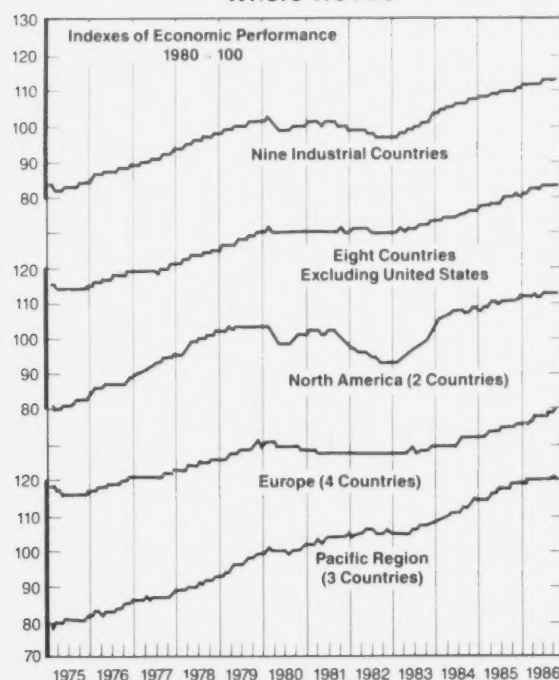
An upbeat mood continues to prevail among the leading business-cycle indexes for the major industrial countries. The latest growth rates in these early-moving indicators range from 1 and 2 percent in the United Kingdom and Canada to 5 percent or above in the United States, Japan, West Germany, Italy, Australia, France and Taiwan R.O.C. Hence they are projecting very modest growth ahead for two countries but better-than-average growth in the other seven. The leading indexes for all nine countries combined turn in an average growth rate of 4 percent in November.

The latest figures for the economic performance indexes yield a less exuberant picture for most countries, with the notable exception of Taiwan where the performance index growth rate has climbed to 13 percent. Expansion has continued to stall in Australia, Japan, Canada and Italy, with growth rates in the 0 to 2 percent range. Growth rates at or slightly above their long run average levels are recorded for the United States, the United Kingdom, West Germany and France. The nine-country performance index rose at a modest 2 percent rate in November. The more favorable picture for the leaders points toward some strengthening in the performance indexes in the months ahead.

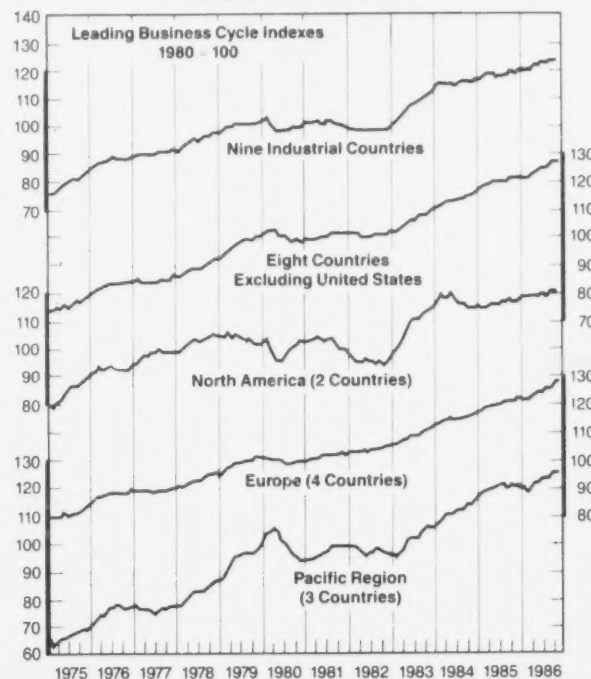
	Ten-year Growth Rate 1969-79	Indexes of Economic Performance Growth Rates*			Leading Business Cycle Indexes Growth Rates*			Current Reading on the Cycle	Latest Month Covered
		6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
annual rates, percent									
9 countries	4	3	2	2	4	3	4	Expansion continuing	Nov.
8 countries ex. U.S.	4	3	2	2	5	5	6	Expansion continuing	Nov.
North America (2)	3	2	2	2	2	1	2	Expansion continuing	Nov.
Europe (4)	3	3	3	4	6	5	6	Expansion continuing	Nov.
Pacific Region (3)	5	2	1	0	4	5	6	Expansion stalling, leaders strong	Nov.
United States	3	2	3	3	2	4	5	Expansion continuing	Dec.
Canada	4	3	1	1	3	3	2	Expansion stalling	Nov.
West Germany	3	5	6	4	6	4	6	Expansion continuing	Nov.
France	4	4	4	5	7	8	10	Expansion continuing, leaders strong	Nov./Oct.
United Kingdom	2	1	2	3	0	1	1	Expansion continuing, leaders weak	Nov.
Italy	3	2	1	2	11	7	6	Expansion stalling, leaders strong	Oct./Nov.
Japan	5	2	2	1	4	5	5	Expansion stalling, leaders strong	Dec./Nov.
Australia	4	4	2	0	0	5	8	Expansion stalling, leaders strong	Nov.
Taiwan, R.O.C.	10	8	10	13	13	13	14	Expansion continuing, leaders strong	Dec.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

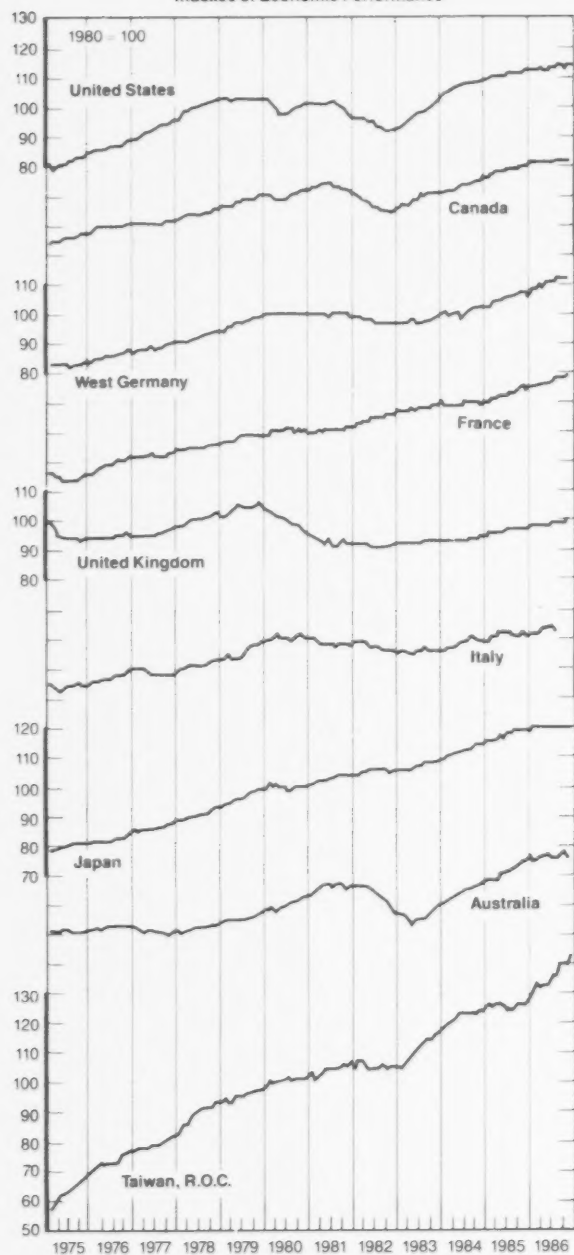
Where We Are



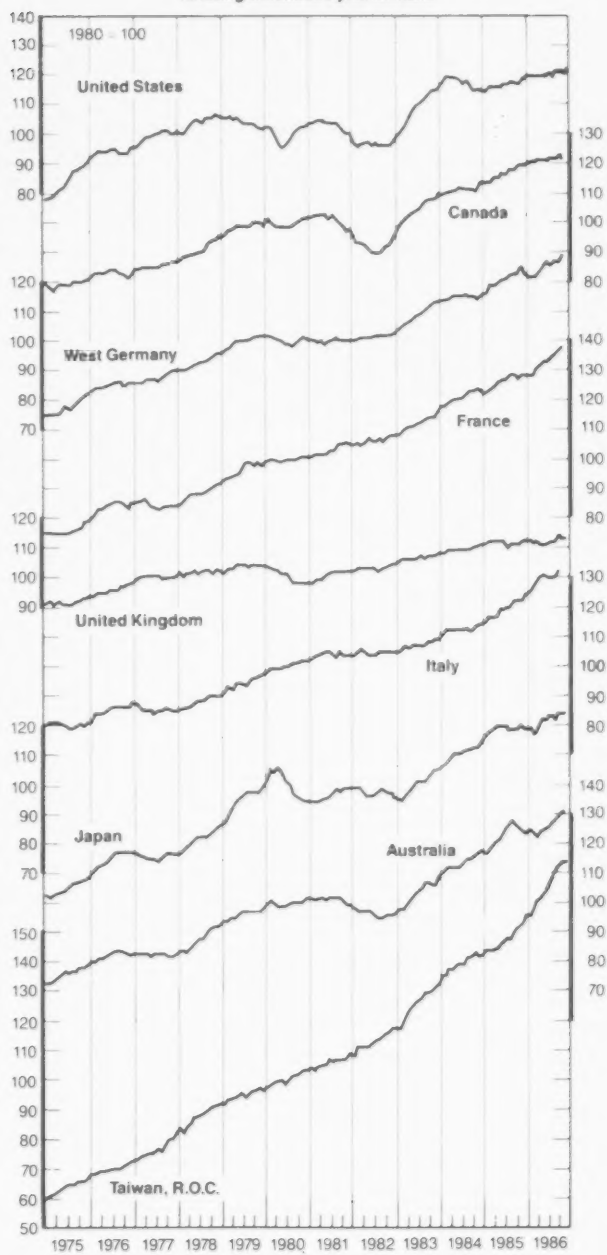
Where We're Headed



Where We Are
Indexes of Economic Performance



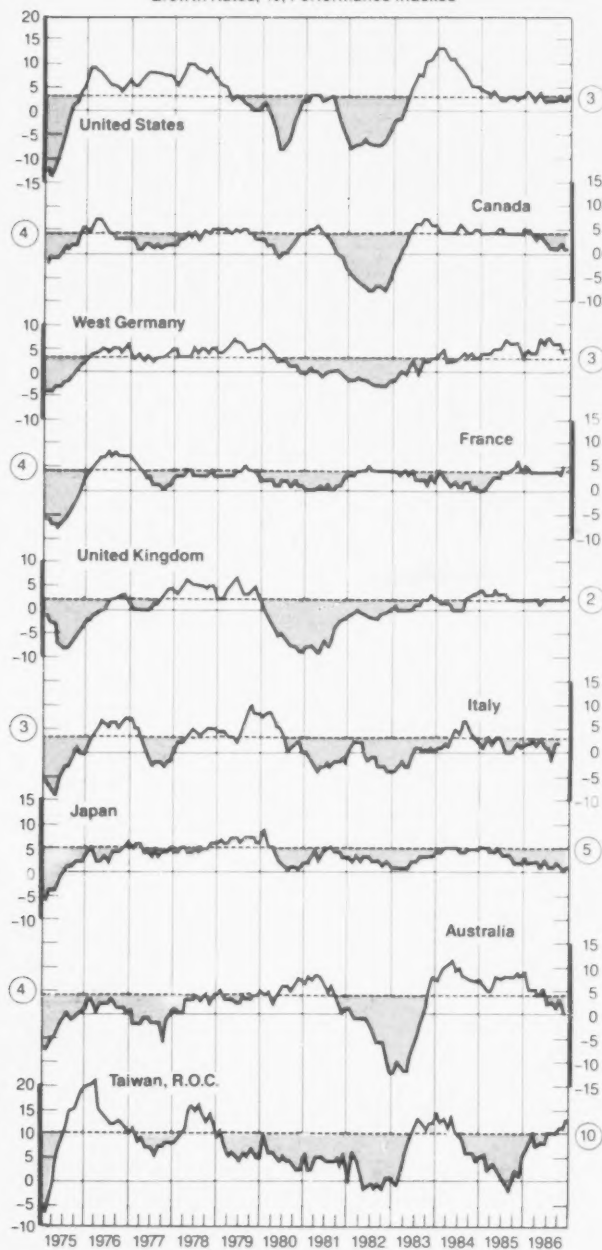
Where We're Headed
Leading Business Cycle Indexes



Sources: CIBCR and The Conference Board

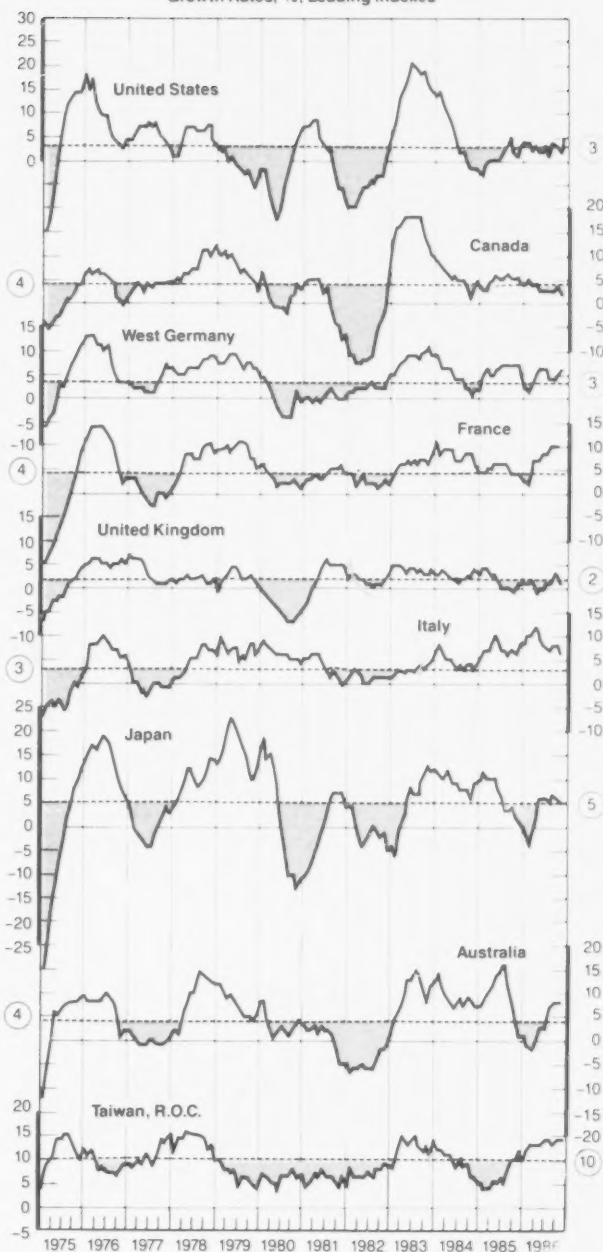
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP

Sources: CIBC and The Conference Board

STOCK PRICES AND THE LEADING INDEXES

The early-1987 boom in stock prices, both here and abroad, has been making big headlines. Since stock prices are a leading economic indicator, one part of the story is that the bull market in stocks is signalling further expansion ahead for the world business cycle. Not all forecasters agree, however. They argue that the run-up in stock prices is strictly a financial phenomenon with little significance for economic activity.

One way to test this question is to ask whether the leading indexes look as strong when stock prices are omitted as when they are included. The answer is: Almost. The calculations for the United States, West Germany and Japan for recent years are shown in the accompanying chart. Results for earlier years back to the 1950s are much the same.

The latest growth rates in the composite leading indexes calculated with and without stock prices are:

Leading Index for	Growth Rate with Stock Price Index	
	included	excluded
United States	4.5%	4.0%
West Germany	6.0%	5.9%
Japan	5.3%	4.3%

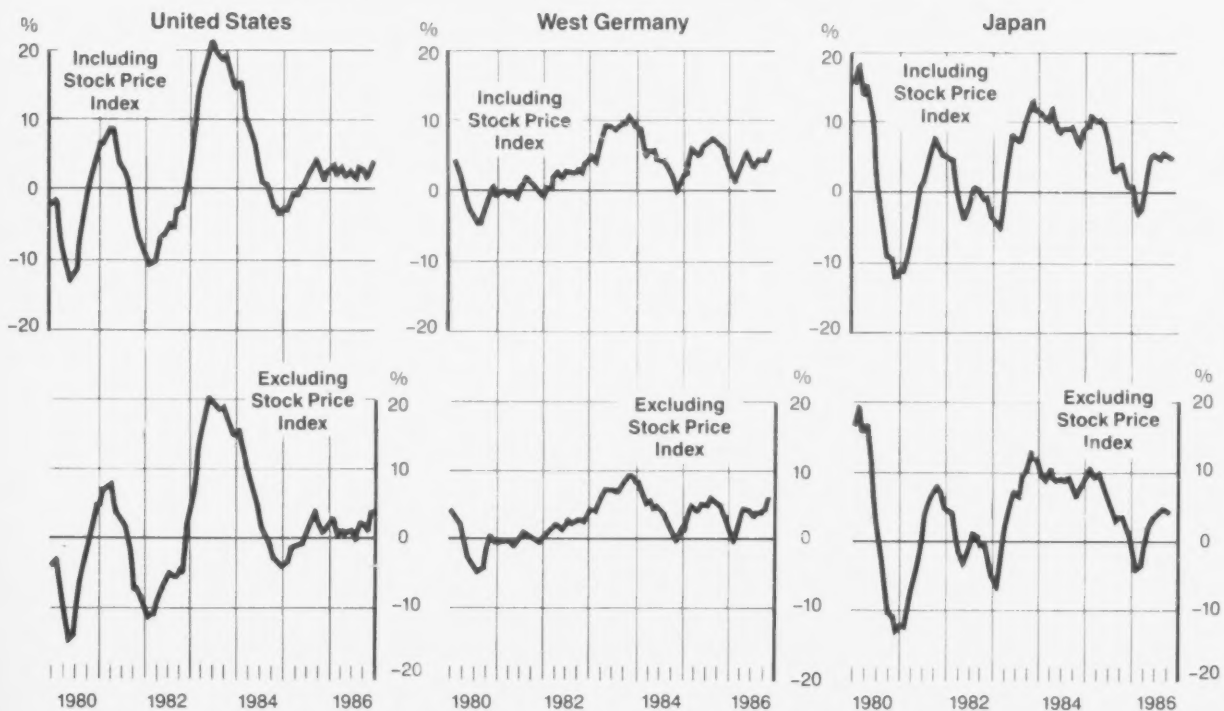
The latest growth rates in the leading indexes for the U.S. and Germany are virtually unaffected by the removal of

stock prices. The index for Japan is less optimistic when stock prices are omitted, but nevertheless is rising faster than at any time since the middle of 1985.

Clearly, looking over the record of the past few years, the leading indexes told pretty much the same story whether or not stock prices are allowed to contribute to it. Part of the explanation doubtless is that stock prices are influenced by some of the other ten or eleven factors included in the leading indexes, such as corporate earnings and new orders. Although interest rates are not represented directly in the leading indexes, elements that are influenced by interest rates, such as housing starts and capital investment commitments are included. Hence the influence of interest rates on stock prices is indirectly represented. In these ways the leading indexes excluding stock prices do provide economic support for what has happened to stock prices. But economic causation runs both ways, and buoyancy or depression in the stock market can affect other leading indicators as well.

These results do not mean, in our judgement, that stock prices should be excluded from the leading indexes. They have economic effects of their own on both business confidence and purchasing power. These effects should not be neglected. Besides, stock prices have a longer and better record as a leading indicator than most others. Discounting them, as in this exercise, helps to prove a point, but it doesn't argue that we should ignore what the stock market is saying.

Growth Rates in Leading Indexes With and Without Stock Prices



THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, two types of index are shown for each country: an index of economic performance and a leading index. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call “coincident” series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see “What the Leading Indicators Indicate,” *Across the Board*, April 1980 and *Business Cycles, Inflation and Forecasting*, Ballinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however. Constant monitoring is needed to

make effective use of the system and get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes for the seven major industrial nations were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates, 1969-79, the equal to those in real GNP in the country concerned. These growth rates are shown at the bottom of the table on the back page and by horizontal lines on the right panel of the charts on pages 2 and 3.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

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INDEXES, NINE COUNTRIES, 1985-86

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	85	110	117	109	119	107	123	114	127	97	111	101	122	119	120	114	125	126	153
Nov.	85	111	117	110	119	107	124	115	128	97	111	102	122	119	119	115	124	126	154
Dec.	85	112	118	110	119	106	123	114	128	97	112	102	124	119	118	115	123	127	156
Jan.	86	112	119	111	120	108	122	115	128	98	112	102	125	119	118	116	124	130	156
Feb.	86	112	119	111	120	108	122	115	128	98	112	103	127	120	116	115	123	132	159
Mar.	86	112	119	111	120	108	123	115	130	98	112	104	128	120	117	115	122	133	161
Apr.	86	113	119	112	121	110	125	116	132	98	111	103	130	120	120	116	121	132	162
May	86	112	119	111	121	109	126	116	133	98	111	104	130	120	122	116	124	133	164
June	86	112	119	111	121	111	127	116	133	98	111	103	130	120	123	117	126	133	166
July	86	113	120	111	122	111	126	117	134	98	112	103	130	120	123	116	127	136	168
Aug.	86	113	119	111	122	111	127	118	135	99	112	102	131	120	122	116	128	136	170
Sept.	86	114	121	112	122	112	127	118	137	99	114	104	132	120	124	116	129	138	171
Oct.	86	113	121	112	123	112	128	118	138	99	113	104	133	120	124	118	130	140	174
Nov.	86	114	120	112	122	112	129	119		100	113		133	120	124	116	131	140	176
Dec.	86	114	122											120				143	177
		Growth Rates, Percent																	
Oct.	85	2	2	4	5	6	7	4	4	2	-1	0	7	3	4	8	7	2	10
Nov.	85	3	1	4	5	5	7	6	4	2	0	2	6	2	2	9	4	1	10
Dec.	85	3	3	5	4	3	4	4	3	2	1	1	8	2	1	7	1	2	12
Jan.	86	4	4	5	4	5	3	5	3	2	1	2	8	3	0	9	1	6	10
Feb.	86	3	4	4	5	4	1	4	2	2	1	2	10	2	-4	5	-1	8	12
Mar.	86	2	2	3	4	4	3	4	5	2	2	3	10	2	-2	5	-2	10	13
Apr.	86	4	3	4	4	7	5	4	7	2	-1	2	12	2	2	4	-1	7	13
May	86	2	2	3	3	5	6	4	7	1	0	3	11	1	4	4	0	8	13
June	86	2	2	2	3	7	6	4	7	2	0	1	9	2	6	5	3	8	13
July	86	2	3	1	3	7	4	4	8	2	1	1	8	1	6	2	3	10	14
Aug.	86	2	1	1	3	6	4	4	8	2	1	-2	7	1	5	2	5	10	14
Sept.	86	3	4	2	3	6	4	4	10	2	3	2	8	2	7	1	7	10	13
Oct.	86	2	3	1	4	5	5	3	10	2	2	2	8	1	6	3	8	11	14
Nov.	86	2	2	1	2	4	6	5		3	1		6	0	5	0	8	11	14
Dec.	86	3	5											1				13	14
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
Indexes, 1980 = 100											
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	85	110	120	110	121	110	117	105	121	118	121
Nov.	85	111	119	111	121	111	117	106	122	119	121
Dec.	85	111	120	110	121	112	118	106	122	119	120
Jan.	86	112	120	111	121	112	119	106	122	119	120
Feb.	86	112	120	111	121	112	119	106	122	120	118
Mar.	86	112	120	112	122	112	119	107	123	120	119
Apr.	86	112	122	112	123	113	119	108	124	120	122
May	86	112	122	112	124	112	119	108	125	120	123
June	86	112	123	112	125	112	120	108	125	120	124
July	86	113	123	113	125	113	120	108	126	120	124
Aug.	86	113	123	113	125	113	119	108	126	120	124
Sept.	86	113	124	113	127	113	121	109	127	120	126
Oct.	86	113	124	113	127	113	121	109	128	121	126
Nov.	86	113	124	113	127	113	120	110	128	120	126
Growth Rates, Percent											
Oct.	85	3	4	4	5	2	3	4	4	3	5
Nov.	85	3	3	4	4	3	2	4	4	3	3
Dec.	85	3	3	3	3	4	3	3	4	3	1
Jan.	86	4	3	4	2	4	4	4	3	3	1
Feb.	86	3	2	3	1	3	4	3	3	3	-3
Mar.	86	3	2	3	2	2	2	3	4	2	-2
Apr.	86	4	4	3	4	4	3	4	5	2	2
May	86	3	4	3	5	2	2	3	6	2	4
June	86	3	4	3	5	2	2	4	5	2	6
July	86	3	4	3	5	2	3	4	5	1	6
Aug.	86	2	3	2	5	2	1	3	5	1	5
Sept.	86	3	6	3	5	3	4	4	6	2	7
Oct.	86	2	5	3	6	2	3	3	6	2	6
Nov.	86	2	4	2	6	2	2	4	6	0	6
Ten Year Annual Growth Rate, Percent											
1969-79		4	4	4	4	3	3	3	3	5	5

